

EXHIBIT D1.c

Henderson State University

Audit Reports

For the Years Ended June 30, 2018 and 2019

Background

- Located in Arkadelphia
- Student Enrollment:
 - 3,336 (Fall 2017)
 - 3,959 (Fall 2018)
- Unrestricted net position at June 30, 2019, was a *deficit* \$14.6 million
- Cash and cash equivalents decreased from \$9.1 million to <\$1 million from 2017 to 2019
- President resigned in July 2019

2018 Audit Findings

Finding 1: Material Misstatements in Financial Statements

- Allowance for doubtful accounts on student accounts receivable understated by \$2,309,445
- Net students accounts receivable overstated by \$2,309,445
- Accounts payable understated by \$183,775
- Deferral of debt defeasance understated by \$78,381 (net)

2018 Audit Findings (cont.)

Finding 1 (cont.):

- Tuition and fees revenue overstated by \$474,016
- Athletics auxiliary revenue overstated by \$31,055
- Housing and food services auxiliary revenue overstated by \$200,042
- Restatement for prior period adjustment of \$1,774,796 not recorded

2018 Audit Findings (cont.)

Finding 1 (cont.):

- Supplies and other services overstated by \$117,723 (net)
- Bond issuance costs understated by \$150,337
- Interest and fees on long-term debt understated by \$72,578 (net)

The University corrected these misstatements during the audit.

2018 Audit Findings (cont.)

Finding 2: Students with Account Balances/Delinquent Accounts

- 26 students tested
 - 17 were allowed to enroll with a balance that exceeded University policy (>\$4,800)
 - 17 did not make any payments during the fall semester but were allowed to re-enroll in the spring and/or summer semester

2018 Audit Findings (cont.)

Finding 2 (cont.)

- 12 delinquent student accounts tested
 - 8 were not being pursued for collection of outstanding balances
 - 3 students were allowed to enroll with a balance that exceeded University policy

Management Responses to 2018 Findings

Finding 1: A new Vice President for Finance and Administration has been hired, and additional review procedures will be implemented

Finding 2: A plan to address the student account issues has been developed, and the Board of Trustees approved policies for current and future students

2019 Audit Findings

Finding 1: Material Misstatements in Financial Statements *(Repeat)*

- Net pension liability overstated by \$530,482
- Deferred inflows related to pensions understated by \$364,383
- Deferred outflows related to pensions overstated by \$685,035
- Cash and accounts payable understated by \$196,422

The University corrected these misstatements during the audit.

2019 Audit Findings (cont.)

Finding 2: Students with Account Balances/Delinquent Accounts *(Repeat)*

- 10 student accounts tested
 - 8 students were allowed to enroll with a balance that exceeded University policy (>\$4,800)
 - 5 students did not make any payments during the fall but were allowed to re-enroll in the spring and/or summer semester

2019 Audit Findings (cont.)

Finding 2 (Cont.): *(Repeat)*

- 10 delinquent student accounts tested
 - 8 were not being pursued by the University for collection of outstanding balances

Note: ALA is reviewing the student financial aid program and will issue a report at a later date.

Management Responses to 2019 Findings

Finding 1: A new Vice President for Finance and Administration has been hired, and additional review procedures will be implemented

Finding 2: A plan to address the student account issues has been developed, and the Board of Trustees approved policies for current and future students

Going Concern

(Note 22 to 2019 Financial Statements)

Contributing Factors

- Deficit unrestricted net position of \$4 million
- \$6 million advance from the State
- Downgrade of University's bond rating to Baa2 from A3 negative

Corrective Action

- The University implemented a \$3.5 million budget reduction for 2019-2020
 - 3% reduction for professional staff and faculty salaries (effective 1/1/20)
 - 4% reduction to retirement match contributions (effective 11/1/19)
 - 50% reduction to supplies and services budgets
 - Hiring freeze
 - Travel restrictions

Corrective Action (cont.)

- Board of Trustees executed a merger agreement with the ASU System (effective 1/1/21)
- University is in negotiations to extend repayment terms of the \$6 million advance

The background of the slide features a large, faint, circular seal of the Arkansas Legislative Auditor. The seal contains the text "LEGISLATIVE AUDITOR" at the top and "ARKANSAS" at the bottom. In the center is the Great Seal of the State of Arkansas, which depicts a figure holding a torch and a scroll, surrounded by stars, with the motto "REGNAT POPULUS" and the word "JUSTICE" visible.

Henderson State University

Audit Reports

For the Years Ended June 30, 2018 and 2019